



China in One Country: interdependence or globalisation 'with Chinese characteristics'?

George Magnus



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Globalisation has stalled, and may be in retreat. Despite the ongoing financial crisis, trade war, and pandemic, many observers still assert that the United States, the West, and China's unique economic interdependence will continue to prop up some frayed globalisation. Perhaps so, but we cannot overlook the politics driving 'decoupling' in the United States and 'self-reliance' in China. Both ideas have their governmental protagonists, and both threaten to undermine globalisation even further.

Although the United States is currently convulsed by division and unrest ahead of the 2020 presidential election, we mostly understand how the US systems of government and business work. We also think we know where America's interests lie, even if the Trump administration pushes these assumptions to their limit. In China's case, however, little of this is well understood. When Xi Jinping champions globalisation, what, exactly, does he mean? And what do Chinese leaders mean when they refer to self-reliance? Is it autarky, or a new form of globalisation with Chinese characteristics, as President Xi might say?

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Globalisation on the wane

Before the financial crisis, world trade grew at twice the rate of global GDP for three decades. Since, however, it has, on average, grown only in line with it. The volume of merchandise trade in early 2020 was 70 per cent below where it would have been had the 1990–2008 trend continued.¹ Global cross-border lending by banks is now about 36 per cent of world GDP, compared with 55 per cent before 2008.² Global foreign direct investment amounted to barely 1.5 per cent of world GDP in 2019, below even the 2008 slump to two per cent³. Indeed, the so-called Sino-US trade war and rising protectionism around the world have undermined world trade. And now, in the wake of the pandemic, supply chains—the plumbing of globalisation—are increasingly in the cross-hairs, with governments and companies reconsidering the complexities of such chains. Several countries, including for example, Japan, often citing national security, are now trying to lure companies out of China to produce certain goods either at or closer to home. Beijing, meanwhile, wants to keep manufacturing, technology, telecommunications, and financing supply chains intact and rooted in China, also in the name of national security.

Although these developments are worrying, lacking leadership has been the most disconcerting occurrence of the last few years. The United States under President Trump has abandoned the global leadership role it is uniquely equipped to perform, while China, keen to be seen as a new leader, lacks the ability to be one.

President Xi Jinping made the case for Chinese leadership to the acclaim of the world’s elite in Davos in 2017, and again the following year at the Boao Forum, its own Davos on the island of Hainan. And yet,

despite rhetoric pleasing to the global elite, what Chinese globalisation means diverges from the term's traditional meaning.

China has unquestionably been the major beneficiary of the world's open trading system: its firms have been active in global mergers and acquisitions while banks, now the world's biggest in terms of assets, have funded infrastructure throughout Beijing's expansive Belt and Road Initiative. But for China, globalisation remains a Western construct. A more assertive China hopes to redefine the term to meet its own goals, such as pursuing 'self-reliance' in key sectors. This entails policies and goals that, in many respects, are the antithesis of globalisation.

The state of Xi's China

China is self-evidently a socialist state, but more to the point, a Leninist state. Although it has sought engagement with the West and global system in order to 'catch up' economically, build interdependence, and improve the well-being of its citizens, Beijing has always emphasised the centrality of the Communist Party and state's role. This is essential: The party takes credit for the past, present, and future success of the country, and is fundamental to economic management and the role of state enterprises. Under Xi, this emphasis has become particularly pronounced. The current economic and operational management conditions facing private, including foreign, firms—the backbone of employment and imported know-how respectively—are now more unfavourable than they had been in decades.

This strategy of indigenous innovation, adopted in 2006 to favour the development of domestically innovation and technology, frequently incurred criticism from foreign companies claiming discrimination. These firms took issue particularly with competition policy, procurement, fiscal incentives, credit terms, forced technology transfer, and intellectual property theft and piracy.

And yet, in spite of recent proposals to strengthen intellectual property law and lift ownership caps in some sectors, China enshrined this strategy with 2015's 'Made in China 2025' initiative, which is designed to create national champions with at least 70 per cent self-sufficiency in 10 advanced technologies. After the trade war began in 2018, the government stopped referring to this strategy by name, but there is no question that it remains a government priority. Beijing has supplemented the initiative with other ambitious leadership objectives in artificial intelligence. Furthermore, the vulnerability of Chinese technology firms such as Huawei and ZTE to US and other restrictions has persuaded Beijing to try and reduce China's dependence on imported semiconductors, the bill for which now surpasses that for crude oil. Before the National People's Congress in 2020, the Chinese government also announced a 'guideline to improve the socialist market economy in a new era'. Details of the guideline are sparse but may be spelled out in the 14th Five Year Plan later this year.

Governance matters

The party's economic, industrial, and foreign policy agendas have attracted much criticism from Chinese scholars and intellectuals, which angers China's leaders with little further effect. Such criticism has, however, become both more trenchant and frequent amid the trade war and pandemic. Some writers have called into question the legitimacy of the government's narrative that China's success is attributable to the Communist Party's state and top-down industrial policy, and argued instead that the real reasons lie in attitudes and policies towards enterprise, markets, learning from other nations, and good governance. With the government turning away from these, China treading down a dangerous path at home and *vis-à-vis* the rest of the world.

This reminds us that there remains a spectrum of opinion in China about interdependence—and that the choice of where it places itself will have a significant bearing for us all.

Some doubtlessly see the benefits of continued interdependence in the form of higher economic growth, diffusion of technology, acquisition of know-how, and, as a result, leverage. Yet, these proponents may be on the political back foot this time. Others currently in ascendance recognise these benefits but also fret about China's vulnerability to and dependency on the United States and other nations, especially in relation to advanced technologies and key components such as semiconductors.

The so-called trade war has demonstrated both of these fears, underlining Xi's preoccupation with national security. Accordingly, China can be expected to further emphasise 'self-reliance'—at least to the point of aiming for higher level of scientific and technological autonomy, reduced energy dependence, and a tilt away from exports to domestic production.

This simple repositioning on the interdependence spectrum comes with a twist: China's discomfort with a globalised system that still functions according to a fundamentally American and Western design.

What China wants is a globalisation with Chinese characteristics, a system in which Chinese governance standards become more common and eventually prevail. In other words, Xi's China does not want to upend the global governance system and start over, but wants nevertheless to reshape it according to China's own norms and standards regarding advanced technologies, internet and surveillance systems, human rights, laws and regulations, political practices, and governance.

The rest of the world needs to take note, not because China is destined to succeed—it may well not, or succeed only partially—but because everyone will be affected by China's expectation that countries should back its pitch for governance and regulations, which comes laden with Beijing's expectations of control and stability, rather than the widely-accepted rules of competition and business.

What is to be done?

There is no question that the United States will play a key part in framing these outcomes, but the upcoming elections will likely determine how. Until recently, American global hegemony depended on setting the agenda, winning supporters, and collectively implementing US efforts (although there were undoubtedly times when the US did not hold back from unilateral actions).

The contrast with the Chinese Communist Party could not be starker. The pandemic reminds us that Xi's China sees virtue in a strongly authoritarian system. In the past, Beijing has punished countries that do not support its narrative and policies. Indeed, China certainly does not have the same kind of alliance ethos, or penchant for the tolerance of dissent, as the United States.

When Xi refers to globalisation, he is certainly thinking, like all of us, about economic integration of the global system. But for him, globalisation is part of what he calls a 'Community with a Shared Future for Humanity' in which Chinese standards and norms hold sway. This governance model, which derives from historical and ideological analysis centred on Party's ideas and decisions, is no more likely to encourage diversity and debate in the wider world than it does at home.

In the wake of the pandemic, many countries sense a profound, almost personal, discomfort with aspects of China's authoritarian system, including the lack of transparency and openness, and a stronger deference to political control and stability than to individual initiative and public debate. These aspects are, in fact, features of the Chinese system that produced serial misjudgements and failures in areas as diverse as food and public safety, financial and economic stability, foreign policy, and public health.

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Furthermore, in spite of the fanfare and rhetoric centred on self-reliance, China's relative position *vis-à-vis* the United States is not likely to improve much, if at all, in reference to issues like energy independence, high-end semiconductors, educational attainment, high-end innovative science and engineering, financial leverage and even water availability. Simply sustaining economic growth and employment creation is more than enough of a challenge in the coming decade.

Amid all the rhetoric about decoupling, and self-reliance, China's ambition may in the end be largely unrealisable given the costs of hardship at home and disruption abroad. Many of the bonds of interdependence may prove difficult to rupture, absent overt conflict. We must hope that those seeking new, if different, forms of engagement prevail; regardless, there is little doubt that horns have locked in battle for global governance. To fight it, we need to better understand the Chinese Communist Party's goals, features, and flaws.

NOTES

- 1 World Trade Organisation, Annual Report 2020
- 2 BIS, International Banking Statistics, various editions
- 3 UNCTAD, Annual Report 2019

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George Magnus is Research Associate at the China Centre, Oxford University, and at the School of Oriental and African Studies, London. George was the Chief Economist, and then Senior Economic Adviser at UBS Investment Bank from 1995-2016. He had previously worked as the Chief Economist at SG Warburg (1987-1995), and before that at Laurie Milbank/Chase Securities, Bank of America and Lloyds Bank. His written work and a blog can be found on his website at www.georgemagnus.com. George's current book, *Red Flags: why Xi's China is in Jeopardy*, was published in 2018 by Yale University Press, and then in paperback in August 2019 with newly commissioned material.



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Globalisation has faltered, and faces significant political challenges. In both the US and China, voices are calling for a reduction of economic interdependence between the two countries. In the US, this has taken the name of decoupling, in China, self-reliance. At the same time, China's President, Xi Jinping has vocally championed globalisation in various global fora in recent years. Understanding of China's systems of government and business, as well as its global interests, is lacking when compared to that of the US. In this Strategic Update, George Magnus investigates what is meant when China's leadership speaks of globalisation, and what the implications of the answer are for the rest of the world.

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